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National Association of Purchasing Management

Report On Business

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Production Up Sharply

Vendor Deliveries Slow

Prices Mixed

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

March Report

The economy continued to grow in March, but at a moderate pace, say the nation's purchasing managers in their latest **Report on Business**. Production was at its highest since June 1984. New orders continued to expand in March, but at a lesser rate than the previous two months. Vendor deliveries slowed noticeably and net inventories fell after rising for three consecutive months. These statistics confirm the improved production activity in March. Employment was slightly higher than in February, but still depressed. March marked the sixteenth consecutive month in which prices have been the same or lower.

The report was issued today by Robert J. Bretz, C.P.M., Chairman of the National Association of Purchasing Management's Business Survey Committee and Director of Purchasing and Distribution, Pitney Bowes, Inc. Mr. Bretz said, "As we expected, the first quarter closed solidly. The continued growth in new orders suggests a healthy economy for at least the next 30-60 days, but at a somewhat slower pace than the past few months."

The **Purchasing Managers' Composite Index** decreased fractionally to 50.4% in March, down from 50.9% in February. This leading indicator has now registered over 50% for seven consecutive months. A reading above 50% generally indicates that the economy is in an expanding phase; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

The overall net decline in employment continued in March, although at a more modest pace than in February. The 18% reporting lower employment was the lowest since September 1984 (14%).

Employment %	Higher	Same	Lower	Net Differ.
March	11	71	18	– 7
February	10	65	25	–15
January	12	64	24	–12

Buying Policy

Lead times for production materials again expanded somewhat in March, a reflection of the higher production levels and the continued expansion in new orders. Members reporting hand to mouth lead times declined to 15% from 18% in February and 21% in January. This is the lowest since May 1985 (also 15%). Members reporting lead times of six months or longer for capital expenditures rose again to 55% where it was in January, after falling to 51% in February. Lead times for MRO supplies were also extended in the 30 day category to 50% from 46% last month.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
March	15	45	28	5	7
February	18	43	25	8	6
January	21	40	24	10	5
MRO Supplies %					
March	41	50	6	1	2
February	45	46	9	2	2
January	40	45	10	3	2
Capital Expenditures %					
March	15	6	6	18	55
February	18	4	7	20	51
January	17	3	7	18	55

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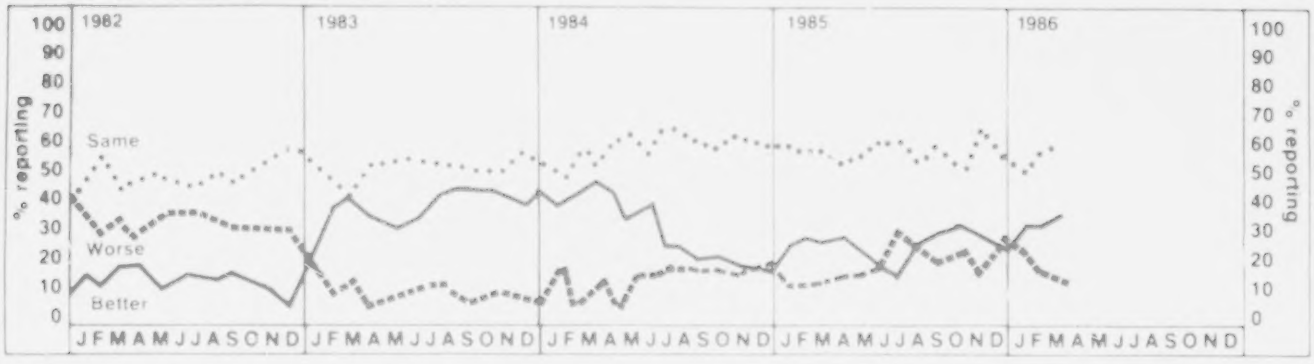
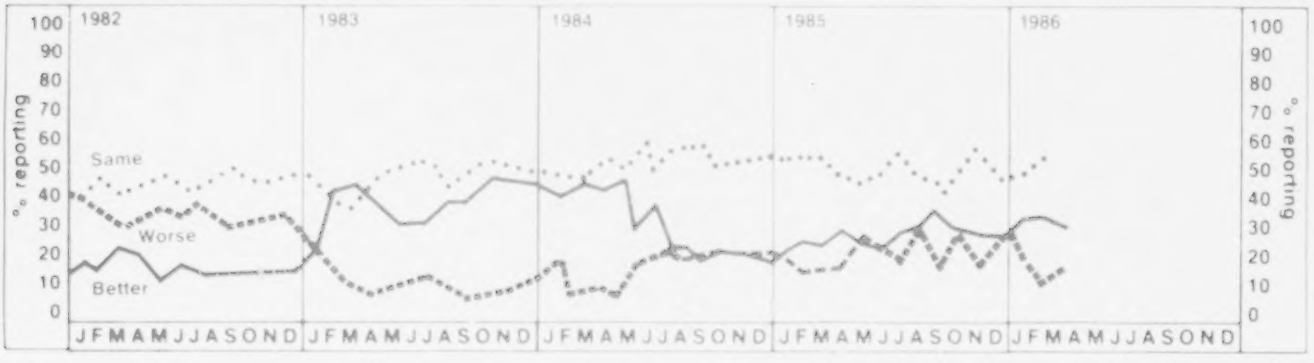
Production



Production levels expanded in March for the third consecutive month. The 35% reporting better production in March is the highest since June 1984 (also 35%) and represents almost a three to one ratio over the 12% reporting production as being worse.

Production %	Better	Same	Worse	Net
March	35	53	12	+23
February	31	54	15	+16
January	31	49	20	+11

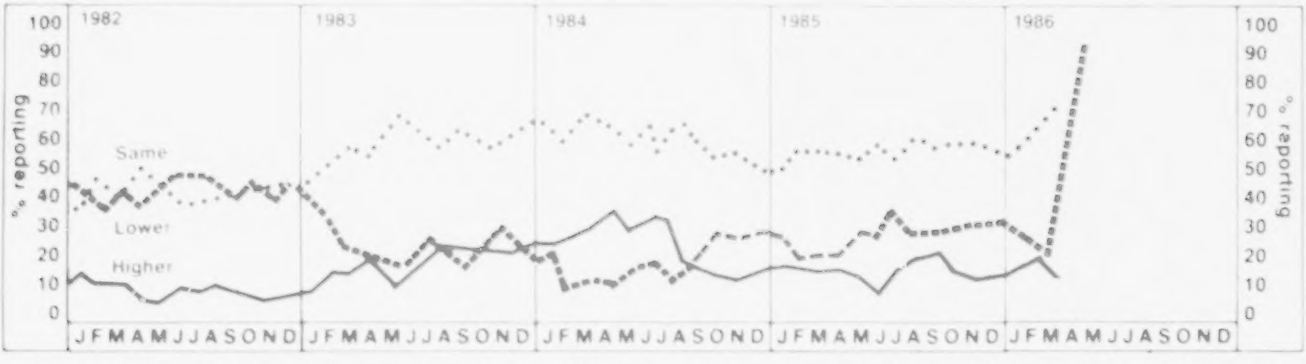
New Orders



The level of incoming new orders in March was off slightly from February but continued relatively high. The 86% reporting new orders as the same or better should sustain a high rate of production through April.

New Orders %	Better	Same	Worse	Net
March	33	53	14	+19
February	35	53	12	+23
January	34	48	18	+16

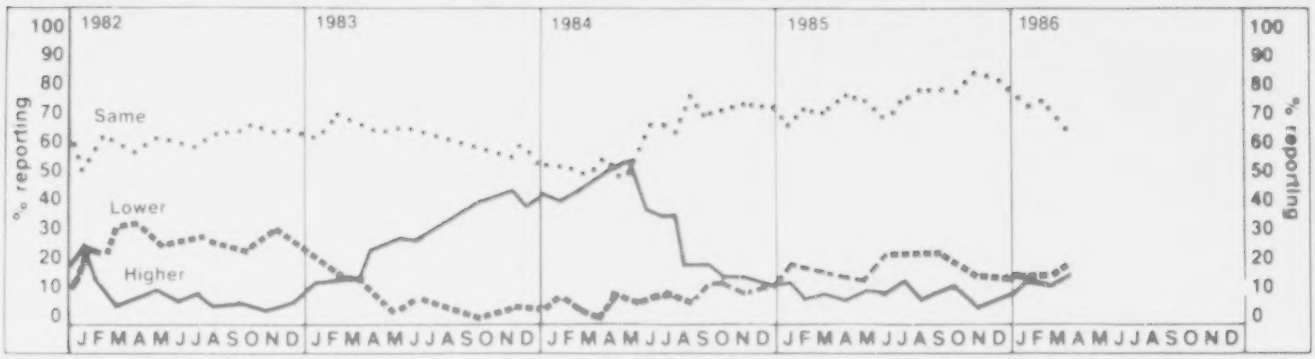
Inventories



The overall rate of decline in inventories continued in March at a slightly faster pace. The 11% reporting higher inventories is the lowest since June 1985 (9%). This reflects the strong demand from increased production as well as the slowing in vendor deliveries.

Inventories %	Higher	Same	Lower	Net
March	11	70	90	− 8
February	17	63	20	− 3
January	15	60	25	−10

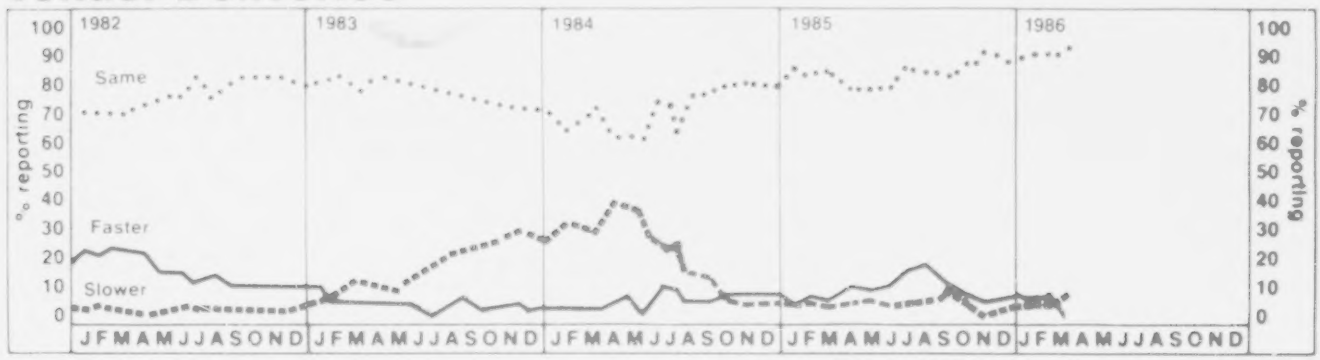
Prices



Purchasing managers reported mixed results in March on the prices they pay for their purchases, with an equal number indicating both higher and lower prices. However, it is noteworthy that the 17% reporting higher prices is the most since September 1984 (19%). As in February, this month's lower prices were strongly influenced by the large number of purchasers reporting lower prices for fuel oil, gasoline, petroleum products, & natural gas.

Prices %	Higher	Same	Lower	Net
March	17	66	17	0
February	13	73	14	– 1
January	14	72	14	0

Vendor Deliveries



The speed of vendor deliveries slowed dramatically in March, mirroring the stronger production levels. The 1% of purchasers who said their deliveries were faster is the lowest since November 1983 (also 1%), which was during the peak period of the current recovery.

Vendor Deliveries %	Faster	Same	Slower	Net
March	1	92	7	– 6
February	5	90	5	0
January	5	90	5	0

Specific Commodity Changes

The string of thirteen consecutive months of no shortages was halted in March as titanium dioxide was reported in tight supply. Energy products, as in February, again headed the list of materials lower in price in March, including all fuel oils, gasoline, diesel fuel, natural gas and miscellaneous petroleum products. Relative newcomers to the lower-price list were plastic resins and products, and phenol (a chemical used in plastic resins). Caustic soda was reported lower for the eighth consecutive month. Two basic commodities, steel and aluminum, were reported higher in price in March.

UP in Price: Steel and aluminum.

DOWN in Price: Fuel oil, gasoline, diesel fuel, miscellaneous petroleum products and natural gas, phenol (used in plastic resins for housing and auto products), plastic resins and products, and caustic soda (used heavily in petroleum refining and paper making).

In SHORT Supply: Titanium dioxide (a lead free pigment used heavily as a whitener in coatings and industrial applications).

Note: The next issue of the *Report on Business* will be available May 5, 1986.

Commodity Reports

Non-Ferrous Metals

Prepared by the N.A.P.M. Non-Ferrous Metals Committee; chairman, George R.A. Milne, C.P.M., Delta Faucet Co., Indianapolis, IN.

Magnesium

The magnesium industry raised their price on December 9, 1985, by five cents per pound. The outlook is for this price to hold for a minimum of twelve months.

Norsh Nydro, a Norwegian firm, is building a new facility in Canada which should be completed late this year. Dow Chemical is running at approximately 50% of capacity and AMAX at roughly 60% of capacity. With this in mind, and the fact that two of the four North American manufacturing facilities are undergoing expansion plans, there is an ample supply of magnesium now and for the near future. (Sharon Sinke, C.P.M., C.L. Frost, Grand Rapids, MI)

Tin

Many important decisions are being made at this time (March 10, 1986) that will influence the price of tin over the next several years. The rescue package for the International Tin Council has failed to materialize, and the LME is scheduled to settle all existing LME positions at approximately $4.11 per pound. The LME probably will not trade tin in the near future. The current shortage of physical tin will be alleviated by the second quarter. With the vast surplus of stocks in the world and no futures market to absorb the tonnage, tin prices are expected to decrease over the next twelve months from their present levels of approximately $3.90 per pound for April delivery.

Nickel

The U.S. Bureau of Mines reports that consumption of nickel for the first eleven months of 1985 was 200,993,000 pounds of contained nickel, compared to 229,643,000 pounds for the same period in 1984; this represents a decrease in consumption of 8.7%.

Consumer inventories at the end of November 1985 totalled 18,077,000 pounds of contained nickel (U.S. Bureau of Mines), or the equivalent of a thirty-day supply. This inventory figure represents a decrease of 8.9% over the same reporting period of 1984. The equivalent days' supply has also decreased by seven days when compared to the same period in 1984.

Published producer prices continue to be posted at $3.20 per pound for melting grade, $3.29 per pound for plating material, and $3.12 per pound for charge grade (Metals Week, March 3, 1986). Spot merchant prices are quoted by the same source at $1.90 to $2.10 per pound.

Stainless steel production remains strong and nickel has shown some signs of recovery. The market has been strengthened by Japan's entrance into the scrap market; firm nickel demand; lower than normal year-end inventories; and Inco and Falconbridge's announcement that they no longer are willing to sell nickel belc v $1.95 per pound (Metals Bulletin, February 21, 1986). (Anthony Apothsas, LTV Steel, Cleveland, OH)

Brass and Bronze

The supply of brass and bronze appears to be adequate. Lead times from the mill are three to four weeks for both coil and rod.

With the soft dollar, we will see a shift in buying from foreign to domestic mills. However, we do not expect any drastic lead time changes for brass or bronze. The mills will continue to have ample capacity. Prices are expected to fluctuate within a relatively narrow range for the first six months of 1986. (Edward M. Straka, C.P.M., Baldwin Hardware Corp., Reading, PA)

Aluminum

Previous reports estimated that ingot prices would continue to creep upwards toward the 65 cents per pound range by the second quarter of 1986. Prices have increased somewhat faster than expected, as 99+ is now selling in the 60 to 62 cents per pound range, with an expectation of a 65 to 68 cents per pound range by June. Obviously, alloy ingot will continue its rise, and a price of 74 to 76 cents per pound for silicon alloys will not be surprising. Billet prices have and will increase in the same manner.

Several factors have contributed to change the aluminum scene: the steadily decreasing value of the dollar; improvement in European and South American economies; a continued reduction of domestic capacity (less than 68% in late January); the forthcoming negotiations for expiring labor contracts in late May; and the constant decline of domestic inventories.

Supply could become a problem during the second quarter. Reliable sources state that several of the primary producers are seeking to purchase large tonnages of metal, notably pure ingot, on the open market for their own usage. Such action reduces the availability of material for spot buys. There are some indications that steady purchasers of ingot from specific houses will not have any difficulty obtaining their needs. For smaller quantities, however, the spot buyer may face some risk.

During the second quarter certainly, and perhaps during the third, the buyer who plans and negotiates aluminum purchases should have no problem in meeting his or her needs when desired, and at a reasonable price — possibly below the stated price. (Ted Campbell, C.P.M., Morris Bean & Company, Yellow Springs, OH)

Textiles

Prepared by the N.A.P.M. Textile Committee; chairman, Harold Scott, C.P.M., K-Products, Inc., Orange City, IA.

Cotton, Polyester, Greige Goods

During the past eighteen months, prices in general have become extremely depressed; in many cases, business operated at a loss. In 1986, we will be contending with a "monster" market, created by competition for a limited amount of business. Suppliers will attempt to do whatever is necessary to improve margins. The thinking is: "If we cannot make money under these favorable business conditions, then we might as well close our doors." This is going to make purchasers' jobs that much tougher this year.

The main problem is that depressed prices have been translated into selling prices at the retail level. The retail community is stating that they will accept no price increases, which means the buck stops in purchasing once again. This truly will be a year of tough negotiations to keep prices under control.

The farm subsidy issue caused many manufacturers to hold off second-half commitments until future events were better defined. Now that this has been clarified, there could be a significant surge in contract placement for yarns with significant cotton content. This could push the market to another plateau. Prices for such yarns could be down 10 to 15 cents per pound in August through December. It will be necessary for contracts to carry a clause or agreed-upon formula to protect the buyer on this cost implication.

Carpet

The supply of raw materials is adequate for the year, except for a possible problem with jute by mid-year. Material prices are mostly steady, except for petroleum-based materials and wools; fluctuating prices for these items are due to currency exchange variations.

Specialty Fabrics

The coming year should see very modest increases in converting and specialty fabrics. Because of this moderate demand, pricing and leadtimes will stay very competitive for at least nine months. However, there could be slight pressure for minor cost building toward the end of this year. Bearing this in mind, now would be the time to improve quality and, at the same time, make long-term commitments for stable pricing and delivery during the balance of 1986. (Larry N. Parkes, C.P.M., Champion Products, Inc., Rochester, NY; Stanley Albright, C.H. Masland and Sons, Carlisle, PA; and Richard Blumenstein, Steelcase, Inc., Grand Rapids, MI)